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INTELLIGENCE REPORT

~~CONFIDENTIAL~~

COUNTRY China

SUBJECT Economic Information
Import Regulations

25X1A6a

ORIGIN
25X1X6

This document is hereby regraded to
CONFIDENTIAL in accordance with the
 letter of 18 October 1978 from the
 Director of Central Intelligence to the
 Archivist of the United States.
 Next Review Date: 2003

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16 January 1967

SUPPLEMENT

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1. Drastic regulations characterized by John Ahlers in the Shanghai Evening Post and Mercury (November 18) as amounting to "complete regimentation of both volume and value of the entire foreign trade of China" were announced by T. V. Soong at a press conference 17 November. These new rulings supplement the provisional import and export trade regulations which had been promulgated on 1 March. Main features of the revised "Temporary Foreign Trade Regulations" are: (1) All imports, except gifts and samples for which no foreign exchange is to be paid, are subject to licensing regulation by the government; (2) certain foreign goods, mainly luxury items, are prohibited from importation; (3) For some raw materials and manufactured goods which are needed in limited quantity the Government will fix volume and value quotas; (4) Priority will be given to machinery, raw materials, and manufactured goods, which are considered necessary for advancing domestic industries and developing economic construction; (5) the new import permit and license system will be administered under the supervision of a new Board for the Temporary Regulation of Imports on which governmental departments concerned and the Central Bank of China are represented (Paragraph 10); (6) Article 12 of the regulations directs equal treatment in license allocation to private business firms and governmental organizations and corporations; (7) imports will be admitted only when accompanied by license. (For the past nine months only a small number of foreign goods have been subject to the quota system).

2. Dr. Soong in his announcement stated that arrivals of large commercial imports, U.S.R.S. goods and American surplus commodities have by now given China an abundant supply of most necessary commodities. Advancing domestic industry is not the principle need of the country Document No. 607

NO CHANGE in Class.

DECLASSIFIED

Class CHANGED TO: S C

CONFIDENTIAL DIA Mem, 4 Apr 77

Auth: DIA REC. 77/1763

Date: 3 APR 1978 By: 026

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2. Dr. Soong in his announcement stated that arrivals of large commercial imports, U.S.R.N. goods and American surplus commodities have by now given China an abundant supply of most necessary commodities. Advancing domestic industry is now the principle need of the country. Document No. 601

NO CHANGE in Class.

X DECLASSIFIED

Class: CHANGED TO: S C

CONFIDENTIAL DIA Mem., Apr 77

Auth: DDA REG. 77/1763

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3. The advancement of domestic industry, the hastening of the country's economic reconstruction, and the halting of the flow of Chinese currency into cheap imported luxury goods are the given reasons for the regulations. Some local American businessmen, aware that American prestige in Chinese trade and commerce has fallen considerably in the past six months, felt the actual motivation might be anti-American in character. Reasons for the American "loss of face" are felt to be principally three: (a) failure of American exporters to live up to the letter of their contracts with Chinese importers while British exporters make every effort to fulfill contracts and deliver goods of pre-war standards; (b) American criticism of China's economic affairs; (c) failure of the United States to grant the China loan. [REDACTED] Note: It was only on 25 November after the announcement of the new regulations that the officials of the Export-Import Bank in Washington announced that US\$300,000,000 in credit would be available to China as soon as General Marshall certifies that China's internal stability is sufficient to warrant the risk.)

4. According to the American Chamber of Commerce in Shanghai, American shippers have taken advantage of distance, shipping problems and communication difficulties to deliver inferior goods. Local merchants frequently appear in the Chamber's offices to lay delivered goods on the table, together with copies of contracts, demanding, "Is this the way the American business man keeps his bargain?" Arrival of inferior goods from the United States has been publicized by the local press. For example, the Shanghai Russian-language newspaper, New Life, editorialized on 18 October:

CPYRGHT American goods have finally ceased to interest Shanghai residents... Starved for goods of good quality, and reading the propaganda about extraordinary textile achievements of America, the population of Shanghai fell on yet unexperimented goods made of plastic... Now they are generally disappointed with the durability of some of these.

5. British firms, on the other hand, have "been stolidly sitting by watching the American cut his own throat, ready to move in at the opportune moment" according to the Executive Secretary of the Shanghai Chamber of Commerce. The quality of British goods, on the basis of company records, is almost of pre-war standard. Extensive and favorable publicity has been given to the recent tour of China by the British Trade Mission. With the resignation of American Arthur Young from the Board of the Central Bank of China and his position as advisor to the Ministry of Finance, two British members, Cyril Rogers and H. B. Barker, were appointed to these positions.

6. Whether or not the Chinese government in the formulation of the new regulations on trade was influenced by the decline in American prestige is debatable. The press reaction to the signing of the Sino-American Treaty of Commerce on November 4 gives credence to this belief. The import restrictions, at least, have served to answer in part some principal criticisms directed at the Treaty. For example, Ta Kung Pao (大公报) (6 November) in a long article criticising the treaty said:

CPYRGHT

We cannot blame the United States, but we cannot understand why our Government has not sought some protection for our domestic industries, our economy and the livelihood of our people.

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Men Hui Pao (文淮報) (7 November) after criticizing the "secrecy" with which negotiations were carried out charged that "the steady flow of US goods to China will be given legal protection...American monopolistic capitalists will be able to export a large amount of capital to this country for the purpose of establishing factories here...soon there will be no more privately-owned Chinese industries. Chung Kuo Jih Pao (中國日報) in Nanking (6 November) analyzing the treaty said that "unless China is industrialized she will be unable to derive real benefits from the (treaty)...In Yenan the Emancipation Daily alluded to Chiang Kai-shek's "bartering away of China's sovereignty in return for the American imperialists' maintenance of his civil war and dictatorship."

7. Immediate reaction of the Shanghai commercial community to the publication of the new trade restrictions was one of "considerable shock". Everything, it was felt, would depend upon the way the regulations were applied. Potentialities for scandal would be immense if there were to be red tape, delay, favoritism and "squeeze" in the allocation of import permits. (Shanghai Evening Post and Mercury 18 November).

8. Opinions of Members of the Shanghai Community:

a. American Consular Officials: Regulations are primarily a move on the part of the Chinese government to conserve the buying power of its currency. They were promulgated to encourage the importation of heavy industrial machinery which will enable China to produce more of its own goods instead of allowing continued leakage of currency for goods which are not a contribution to the recovery program.

b. American businessman: There is as yet no clear cut quota for the importation of any category of merchandise and no assurance that there will not be the usual delays in the handling of applications for importation of goods. There has always been only one given way of increasing the Chinese official's efficiency and that is the payment of "squeeze".

c. Secretary of the American Association: In a meeting of the American Association held on 17 November, one of Shanghai's leading American residents stated that if the new regulations are put into effect "the American business man in China is through and this is true not only of the importer, but of the banker, insurance man and others." Whether or not this statement is true is yet to be seen. This set of regulations may be an attempt to put pressure on the American business man to conform or else. It is generally agreed that the new regulations will hurt American business.

d. American importers: It is only importers of luxury articles who will be hit hard. Those of us who deal in basic commodities will continue to carry on. If the regulations are honestly administered they should aid rather than hinder the American. For one thing I can now buy my American dollar exchange at a reasonable rate.

e. Chinese cotton exporter: It is a new era for China. It will help us to rehabilitate ourselves commercially and productively. This thing has been coming for a long time. Although it will hurt foreign business to a small degree, it will act as an impetus to our own. Perhaps I shall not be able to get the car I want to drive

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or even to see all the American movies I want to see, but I, like any good Chinese, am quite willing to forego these things in order to strengthen China.

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f. UNRRA Economic Analyst (American): These regulations were China's only salvation. In the past year China has imported some 85 millions (US\$) of goods and exported some 15 millions giving a foreign exchange flow of some 70 million dollars. With only a backlog of about a half billion dollars for foreign exchange, how long could the country stay out of bankruptcy at this rate? Don't sit smugly back and think that this is the end of restrictions; it's only the beginning with more to come. Nobody should be badly hurt by them if they are properly administered. Up to this point China still needed a tremendous flow of imports. Now "in a large sense" her needs have been filled and free trade is no longer advisable.

g. Official of American Chamber of Commerce: Regulations will hurt many fly-by-night importers who have come since the end of the war. In fact they will undoubtedly be driven out of business. The old-timer will be hurt only slightly by comparison.

h. American lawyer: The problem is mainly in the efficiency and honesty of administration of these regulations. As far as these regulations being a measure designed to improve the Chinese economy, they are at least nine months too late. During that period much foreign exchange has been "oozed away" in payment for material which the Chinese government now classes as undesirable.

i. American oil man: If the quotas are sufficiently high to take care of the potential volume of business, everything will be all right. However, already, some Chinese firms who never before sold a drop of kerosene have been registered. If they are allowed quotas ~~un~~ favorable to American firms, the latter will suffer a tremendous loss.

j. Movie distributor: If new quotas are equitably fixed, we can carry on with only slight inconvenience.

k. Cotton importer: Cotton is a staple and quotas will always be sufficiently high to enable licensed importers to carry on a lucrative business. It all depends upon who will be licensed.

l. American banker: As China will not be able to get imports of heavy industrial equipment from either the United States or Great Britain for some time to come, it would appear that the main intention of the new regulations is to cut down the expenditure of foreign exchange. It is estimated that China now has less than seven-sixteenths of the foreign exchange resources she had when the 1 March regulations were put into effect. Considerable part of these must be segregated for military expenditure and the costs of diplomatic establishments abroad; the balance must be strictly rationed for necessary uses until internal stability can be restored and to cover commitments which have already been made under the former system of control, but not allotted. Under the circumstances it is likely that comparatively few expenditures will be made for consumption goods and that most of the remaining fund of foreign exchange will be utilized for such machinery as is obtainable and for fuel and raw materials. The main products which the United States has been supplying under the former system will be cut off as soon as the current commitments are liquidated, as about 75% of China's imports have been for consumption goods and luxuries. (Chinese firms themselves have been the chief importers of the latter category of items.)

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9. a. Chinese press comment: Shen Pao (申報) 19 November quoted from interviews with CHANG Yu-chiu (張易九), chairman of the Chinese Import and Export Trade Association, and HU Po-hsiang (胡伯翔), representative of the Domestic Products Association. CHANG said the newly revised trade regulations will surely bring about the recovery of the Chinese national industries. HU called this a wise step taken by the Government. It will restrict the importation of light industrial products and encourage the importation of light machine tools. This will protect native industry. Illegal importation of goods must be halted or the new regulation will become null and void. Those goods which are prohibited to be imported must not be allowed to be manufactured in China by foreign nationals.
- b. Hsin Min Pao (新民報), 19 November. No partial import restriction will bring about a sound reconstruction of the national economy. According to the Sino-U.S. Trade Treaty...the American merchants are privileged to establish factories in China. If this fact ever induces other countries to follow the same step, there will be keen competition between foreign goods and domestic products in the future even with the new regulations. Although the newly revised regulations specify equal rights for both Government-supported enterprises and private businessmen to import, there still are exceptions in favor of the former which have permission to import goods purchased with foreign credits they have abroad. This will eventually bring about the partial development of bureaucratic capitalists... Though the revision of this regulation seems rather late, it may be the only proper solution to the present problem.
- c. Tung-nan Jin Pao (東南金報) 19 November. The "protective trade policy" may be effective only when the country has the ability to produce raw materials and to increase the source of supply. The word "protect" is meaningless if we do not have anything to protect. When acute shortages of raw materials reoccur, we will again lose control over foreign trade. Thus, all the efforts in revising the foreign trade policy will be in vain.
- d. Shen Pao (申報) 19 November: commenting on Article 13 of the regulations (see paragraph 1). This policy should be strictly adhered to in the application for import permits by both Government and private industries. The Government should also consider the needs of private industries when it purchases goods through foreign loans. Private industries should also be given an equal opportunity to buy surplus goods.
- e. Hsin Min Pao (新民報) 19 November. According to a man connected with the Guild of Importers and Exporters, the main reason for the establishment of the Board for Temporary Regulation of Imports by the Government is to lay restrictions on private imports so as to eliminate competition with the government imports. (US\$500,000,000 worth of surplus materials will soon be imported)... For this reason, the establishment of the Board...further endangers...China's import business...The establishment of such a board will increase smuggling. Those who are free to make money are no other than government officials and other influential people.
- f. Ho Ping-jui (何平居) 19 November: (Under new regulations)... the government will grant loans to productive enterprises...Most of the persons who are concerned with these regulations are not too enthusiastic about them. Some persons (officials) ...will make...

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these beneficiaries pay them a certain amount in order to get the loans.

10. The Executive Committee of the newly formed Board for the Temporary Regulation of Imports is composed as follows:

Chairman: PEI, Tsu-yi (貝祖義); Governor of the Central Bank of China; right hand man of T. V. Soong.

Members: LI (LEE) Kan (李乾), Director of Import Planning of the Executive Yuan, formerly Commercial Counsellor of the Chinese Embassy in Washington.

CHANG, Fu-yih (張福興) Director of the Import Licensing Department of the Chinese Maritime Customs.

LIN, Wei-ying (林維英) Director, Foreign Exchange Examination Department, Central Bank of China; Educated in United States.

CH'EN, Ch'ang-t'ung (R.C. Chen 陳長桐), Manager, Foreign Department, Head Office, Bank of China, Shanghai; educated New York University.

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